

MUNICIPALITY OF ROSLYN
INTERNAL CONTROL REVIEW
March 30, 2007

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AUDITOR GENERAL

REPORT ON THE LIMITED STUDY OF INTERNAL CONTROL
PERFORMED IN ACCORDANCE WITH SOUTH DAKOTA CODIFIED LAWS 4-11-4.1

Governing Board
Municipality of Roslyn

We have made a study of selected elements of internal control of the Municipality of Roslyn in effect at February 28, 2007. Our study was performed pursuant to South Dakota Codified Laws (SDCL) 4-11-4.1 and was limited to selected accounting controls contained in the codified laws and other selected controls we felt were significant to the Municipality of Roslyn. Our study was not conducted in accordance with the standards established by the American Institute of Certified Public Accountants for the purpose of giving an opinion on internal control in effect at the Municipality of Roslyn.

The management of the Municipality of Roslyn is responsible for establishing and maintaining internal controls. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control policies and procedures. The objective of internal controls is to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of general purpose financial statements in accordance with generally accepted accounting principles.

Because of inherent limitations in internal controls, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the internal controls to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operations of policies and procedures may deteriorate.

Our study was more limited than would be necessary to express an opinion on internal control of the Municipality of Roslyn. Also, our study would not necessarily disclose all significant weaknesses in internal controls of the Municipality of Roslyn. Accordingly, we do not express an opinion on internal control of the Municipality of Roslyn in effect at February 28, 2007.

However, our study did disclose weaknesses in internal controls of the Municipality of Roslyn in effect at February 28, 2007, as shown in the Schedule of Auditor's Findings section of this report and as discussed below:

- a. The municipality did not maintain the following necessary accounting records:
 1. revenue budget record,
 2. expenditure budget record, and
 3. taxes receivable record
- b. The municipal officers or employees, having in their custody any public personal property, requiring inventory, did not as of the thirty-first day of December, or within ten days thereafter, make in duplicate an inventory of all the public personal property in violation of SDCL 5-24-1.
- c. The finance officer did not give the governing board a full and detailed account of all receipts and expenditures since the last report, and the state of the treasury in violation of SDCL 9-22-20.
- d. The governing board was not reviewing the actual vouchers and therefore approved vouchers were not compared to checks as the board president signed the checks.
- e. The municipality did not designate an official newspaper in violation of SDCL 9-12-6 or the official depositories in which funds belonging to the municipality shall be deposited in violation of SDCL 9-22-6.
- f. Not all of the municipality's accounting records were properly stored in a fire proof location.
- g. The annual report of financial information for the year ended December 31, 2006, was not properly completed.
- h. The governing board president pre-signed checks for the finance officer. Blank checks should not be pre-signed by the governing board.
- i. Not all hourly employees prepared time cards or timesheets, which should be signed by the employee and a supervisor.
- j. The municipality presently requires a \$100.00 utility deposit for hook-up to the municipality's water system. However, an adequate subsidiary record of utility deposits collected from utility customers was not maintained. As a result, the municipality was not able to determine who may be due a refund of this deposit upon termination of municipal services.
- k. Revenues from bulk water sales were not properly controlled and as a result are susceptible to loss. It appeared that bulk water sales from 2002 thru 2005 did not get billed out to the respective customers.
- l. The municipality's liquor operating agreements were not current. This matter should be reviewed by the governing board and up to date operating agreements issued.

This report is intended solely for the use of management and the governing board and should not be used for any other purpose. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

A handwritten signature in black ink, appearing to read "Martin L. Guindon". The signature is fluid and cursive, with a large initial "M" and a long, sweeping underline.

Martin L. Guindon, CPA
Auditor General

March 30, 2007

**MUNICIPALITY OF ROSLYN
SCHEDULE OF AUDITOR'S FINDINGS**

Finding Number 2007-01:

During the period of January 2006 through December 2006, Roslyn Municipal Finance Officer Judith Schaunaman received approximately \$590 of utility services from the municipality for which no payments were made. Also, during the period of January 2002 through December 2005, no utility payments stubs were on file for the utility services received by the Municipal Finance Officer totaling approximately \$2,100. In addition, during the period December 2005 through January 2007, deposits of municipal utility collections were short of the amount shown as paid in the utility records by approximately \$1,200.

Analysis:

SDCL 9-22-1 states:

All money belonging to the municipality derived from taxation, licenses, fines, forfeitures, the operation of waterworks or other public utility owned or operated by it, or from any other source, shall be paid into the municipal treasury, and the governing body by the annual appropriation ordinance shall designate to what fund or funds such money shall be applied.

SDCL 9-22-5 states:

The treasurer shall keep all moneys in his hand belonging to the municipality separate and distinct from his own moneys. He shall not use, directly or indirectly, the municipality's money or warrants in his custody for his own benefit or that of any other person.

SDCL 22-30A-10 states:

Any person, who has been entrusted with the property of another, who, with intent to defraud, appropriates such property to a use or purpose not in the due and lawful execution of his trust, is guilty of theft. A distinct act of taking is not necessary to constitute theft under this section.

SDCL 22-30A-8 states:

Any person is guilty of theft if he intentionally obtains property or service which he knows is available only for compensation, by deception, threat or other means to avoid payment for the service or property.

The following improprieties were noted in the operation of the Roslyn Municipal finance office:

- a. An analysis of the utility service billings to the finance officer's residence determined that the finance officer's residence received \$598.20 in utility services from January 2006 through December 2006. No payments were noted for these services. However, the outstanding utility service bill was adjusted by the finance officer to be shown as paid.

- b. A review of the utility payment stubs from January 2002 through December 2005 determined that there were no utility payment stubs on file from the finance officer's residence for utility services received of \$2,111.90.
- c. An analysis of the utility billing collections determined that the deposits of utility collections were short of the amount shown in the utility records by \$1,234.89 during the period from December 2005 through January 2007.

RECOMMENDATION:

We recommend the Municipality of Roslyn pursue recovery of these amounts from Finance Officer Judith Schaunaman together with the cost of this portion of the internal control review.

**MUNICIPALITY OF ROSLYN
MUNICIPAL OFFICIALS
February 28, 2007**

Chairman:

Kenneth Walker

Trustees:

**Gary Knebel
Steve Schmidt**

Finance Officer:

Judith Schaunaman